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SUBJECT: MADRID WEEKLY ECON/AG/COMMERCIAL UPDATE REPORT -
AUGUST 13

MADRID 00001600 001.2 OF 002

Table of Contents:

EFIN/ECON: Ibex 35 up Friday by 1.84% shortly before closing
EFIN: New takeover law effective 8/13/07
EFIN: GE forms partnership with Catalan firm
SMIG: Spain is the second source of remittances in the world
after the US
ENRG: Spain's petroleum station owners call for subsidies on
renewable fuels
ELTN/PGOV: Opposition parties ask Minister of Infrastructure
to resign

IBEX-35 UP FRIDAY BY 1.84% SHORTLY BEFORE CLOSING

1. (U) This follows Thursday's 3.72% drop. Spain's Dow equivalent, the Ibex-35, had a rocky week, like most European stock markets. The market fell by about 4% over the week. The general and financial press has been full of stories about the dramatic events on the stock market, particularly after Thursday's 3.72% fall, the biggest drop since the March 11, 2004 train bombing. Most analysts still believe the market will recover, but clearly investors are nervous. Spanish banks and real estate companies have taken the biggest hits. So far, however, no Spanish banks seem to be dangerously exposed to bad investments in securities backed by sub-prime loans, at least so far. Investors want to be sure though. (Comment: We expect continued turbulence over the next couple of weeks. One immediate consequence of this problem is that Spain's major construction groups will find it more difficult to obtain financing so it is likely that their big acquisition spree is at an end.) (Expansion, 8/17/07)

NEW TAKEOVER LAW EFFECTIVE 8/13/07

2. (U) The new takeover law implements a 2004 EU directive on the subject. The law has been commented upon extensively in the national and international press. The immediate reason for the commentary is that everybody has the long and tortured Endesa takeover saga in mind. But, as the Financial Times reports, the law was also written with the Spanish "partial takeover" in mind, the practice whereby important Spanish companies have been able to gain effective control of companies with minority stakes, and at the same time put other minority stockholders at a disadvantage. The key feature of the new law is that companies will be able to buy up to 30% of a takeover target after announcing a bid, but they will then also be forced to make an offer to all the shareholders so that minority shareholders are not disadvantaged. (Comment: It will be interesting to see whether the new takeover law, in fact, changes the somewhat clubbish nature of the way business is done in Spain.) (FT

8/13/07; El Pais 8/13/07; Expansion 8/13/07)

GE FORMS PARTNERSHIP WITH CATALAN FIRM

¶3. (U) GE forms partnership with a small Barcelona-based healthcare group to enhance GE "cross-selling" in the growing healthcare industry. The partnership with the Catalan firm, USP Hospitales, engendered an admiring article in the Financial Times, something of a boon to GE Spain's dynamic CEO, Mario Armero. (FT 8/10/07)

SPAIN IS NOW THE SECOND SOURCE OF REMITTANCES IN THE WORLD AFTER THE US

¶4. (U) In three years, Spain has gone from being a net recipient of remittances to a net source of remittances. In 2006, immigrants in Spain remitted euros 6.8 billion. This represented 0.7% of Spain's GDP and accounted for almost one percentage point in Spain's current account deficit of about 8% of GDP. Almost 70% of the money went to Latin America; 6% went to Morocco, and eastern European countries received almost 8%. In terms of the importance of remittances from Spain as a percentage of receiving countries' GDP, the numbers are: Bolivia (8.5%); Ecuador (3.6%); Senegal (1.9%); Dominican Republic (1.5%); Colombia (1.25%); Morocco (0.91%); Romania (0.5%); Peru (0.31%). (Comment: The numbers for Africa and the Maghreb are still relatively low, but they will undoubtedly become more important. Bolivia's dependence on remittances from Spain is truly remarkable.) (Expansion, 8/14/07 citing Bank of Spain numbers)

SPAIN'S PETROLEUM STATION OWNERS CALL FOR SUBSIDIES ON RENEWABLE FUELS

¶5. (U) Spain's petroleum station owners are calling on national and regional governments to subsidize Spain's move towards the use of renewable fuels. One of the Spanish

MADRID 00001600 002.2 OF 002

associations of petroleum station owners (Aevecar) has petitioned the Spanish Government for subsidies to defray the costs of installing new equipment that will be required to meet the European Union's renewable fuels-use requirements. According to Aevecar, the average cost per station will be from the 30-50 thousand euro range, to include the costs of new storage tanks and pumping equipment.

¶6. (U) The other important petroleum station owner's association (CEEES) has announced that the Government of the Autonomous Region of Valencia has agreed to subsidize half the costs of 61 renewable-fuels use projects for refueling station owners. According to the CEEES press release, 48 of the projects are new stations and 13 are equipment replacement in now existing stations. The subsidies will increase by more than ten times the number of petroleum stations dispensing renewable fuels in Valencia.

OPPOSITION PARTIES ASK MINISTER OF INFRASTRUCTURE TO RESIGN

¶7. (U) On August 14, the Spanish Congress convened a special session to question the Minister of Public Works and Infrastructure, Magdalena Alvarez, over the numerous train, electricity, and airport infrastructure failures occurring in the Catalanian region over the past months. Listing the blackouts, train derailments and delays, and problems with Barcelona's El Prat airport, members of the PP and other opposition parties demanded that Minister Alvarez resign. Minister Alvarez refused, saying that she would only leave if President Zapatero requested that she do so. During the five-hour session, the Minister defended her work at the ministry, outlining improvements in investments in Catalonia's infrastructure during her tenure. She admitted that there had been numerous problems, but claimed that some of the failures were beyond the Administration's control. She also said that that the Ministry had spent much more on improving Catalonia's infrastructure than the previous

administration, perhaps suggesting that some fault be placed with the former administration's "inadequate" investment in this region's infrastructure.

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